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C O N F I D E N T I A L SECTION 01 OF 03 DUSHANBE 000618

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STATE DEPARTMENT FOR SCA/CEN

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TAGS: [EFIN](#) [KCOR](#) [EAID](#) [EINV](#) [PREL](#) [PGOV](#) [TI](#)

SUBJECT: GOVERNMENT TRIES TO TACKLE FINANCIAL CRISIS, BUT SHADOW OF
BANK AUDIT LOOMS

REF: A. A: DUSHANBE 508

[1](#)B. REF B: DUSHANBE 514

[1](#)C. REF C: DUSHANBE 570

CLASSIFIED BY: TRACEY A. JACOBSON, AMBASSADOR, EXE, DOS.

REASON: 1.4 (b), (d)

[1](#)1. (C) Summary. Last week the Tajik government convened a donor meeting to discuss the effects of and potential responses to the world economic crisis. Little of the information was new. Tajik officials described the difficulties the country is facing -- falling remittances, sharply lower exports, and a big budget gap. They also underlined their commitment to reforming the National Bank, the investment climate, and cotton financing. Much of it felt scripted: telling donors what they wanted to hear before asking for more assistance. But at times the Tajik officials did not seem to be taking the problems seriously. End summary.

Dog-and-Pony Show for Donors?

[1](#)2. (U) The May 13 "Donor Meeting to Discuss [the] Tajik Economic Crisis" was co-chaired by Matlubkhon Davlatov, State Adviser to the President on Economic Policy, and Motoo Konishi, World Bank Regional Director for Central Asia. Speakers included Minister of Economic Development and Trade Gulomjon Bobozoda, Minister of Finance Safarali Najmiddinov, National Bank of Tajikistan Chair Sharif Rahimzoda, and International Monetary Fund (IMF) Deputy Division Chief for the Middle East and Central Asia Axel Schimmelpfennig.

[1](#)3. (U) Davlatov's opening presentation highlighted the progress Tajikistan had made in recent years. Average GDP growth was 7.2% over the past three years, allowing for steady increases in the national budget, more attractive investment opportunities, and increased social expenditures. Poverty decreased from 83% in 1999 to 53% in 2008. The financial crisis, however, threatened these gains. Tajikistan's exports in the first four months of 2009 fell 48% compared to the same period last year, led by declining prices for aluminum and cotton. Remittances declined by over 30% and the national budget by 20%.

[1](#)4. (U) The second half of Davlatov's presentation discussed

Tajikistan's response to the crisis in light of IMF requirements for receiving assistance under its recently-approved Poverty Reduction and Growth Facility (PRGF) (see reftels). Davlatov said Tajikistan had implemented required monitoring programs, while acknowledging the need to take further measures, including reforming National Bank management and improving transparency at large, state-owned enterprises. All this was included in the government's anti-crisis plan "in order to improve trust with the donor community."

15. (U) Bobozoda and Najmiddinov hit similar themes. They noted further difficulties stemming from the crisis, including an 11% decline in the national currency (the somoni) and a similar drop in imports. (Note: The somoni has appreciated against the ruble, however. Since most of Tajikistan's imports come from Russia, prices have remained relatively stable. End note.) Bobozoda said despite the difficulties, GDP has risen by 2.9% this year, though it may be tapering off. Najmiddinov noted that even after a recent revision, the national budget faced a \$180 million shortfall. He hoped international donors would cover the gap in order to maintain social services at their current levels. The government had rolled out several initiatives to jumpstart spending, including reducing the value-added tax (VAT) from 20% to 18% and the profit tax from 25% to 15%. Despite such interventions, the prognosis was grim for the months ahead.

16. (U) In a brief statement, the World Bank's Konishi said Bank Vice President Shigeo Katsu's visit to Dushanbe and meeting with President Rahmon the week before was "almost an emergency" trip in light of the crisis facing Tajikistan. Konishi said Katsu appreciated Rahmon's frank acknowledgment that more work

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remained to improve Tajikistan's financial situation and business climate. Konishi asked the donors to recognize the serious steps the government was taking.

IMF: Government Gets Mixed Review

17. (U) Schimmelpfennig gave the government mixed reviews on its performance so far. While officials had run a small fiscal surplus, they had done so by cutting social sector expenditures, despite promises not to do so. (Though the revised budget has been cut by \$100 million (2% of GDP), it still represents an 18% increase (or 6% controlling for inflation) over the 2008 budget.) The National Bank had met its targets for international reserves but had contracted \$15 million in non-concessional external debt to meet its liquidity needs. Things are likely to get worse. Remittances are expected to remain low, as are aluminum and cotton prices. In light of these problems the IMF had reduced its projection for Tajikistan's 2009 GDP to 0%. The National Bank has little capacity to influence exchange rates; it should concentrate on keeping volatility to a minimum and providing short-term liquidity where needed.

A Surfeit of Action Plans -- But So Far Little Action

18. (SBU) Over the course of the day's event, at least four

different government action plans were mentioned: one to deal with the financial crisis, another governing reform of the National Bank, a third covering cotton sector reform, and a final one putting into effect President Rahmon's "200 Days of Reform" initiative. Davlatov had to clarify that the financial crisis plan (approved on April 20) was different from the President's "200 Days" plan (approved April 30). The former includes plans to create new jobs, increase job training, and augment education to provide work for returning guest workers. Davlatov said over 100,000 new jobs were created last year, mainly in the agricultural sector, and the government hoped to create 140,000 more this year. (Comment: Given plummeting agricultural exports, low wages and persistent reports of forced labor in the sector, and the government's very limited capacity, these figures are hard to take seriously. End comment.) The President's 200 Days of Reform Plan includes initiatives to reduce barriers to opening businesses, increase investment, and improve the business climate. Three new laws were passed this week to put some of these rules into effect.

19. (U) From the IMF's perspective, three key structural reforms remain: strengthening National Bank governance, removing "rigidities" in agriculture, and putting state-owned enterprises on a sound financial footing. Rahimzoda said the National Bank was following an action plan to put reforms into place. New central bank and commercial bank legislation currently was being considered by parliament, with the former likely to pass by the end of the month and the latter already on the President's desk.

Internal reforms were being carried out, including strengthening the National Bank's internal audit function and closing the cotton debt department. Rahimov expressed some hesitance when asked if he would share the action plan with donors, but he agreed in principal it could be made public. Schimmelpfennig said the plan was "essentially an operationalization" of the government's agreement with the IMF, and contained no surprises.

110. (C) The afternoon was devoted to cotton sector reform, where the fourth government plan, to write off half a billion dollars in outstanding cotton debt ultimately due to the National Bank, was mentioned. (The plan and reactions to it will be reported septel.) Davlatov said the plan would be released to donors within the day, and he asked for comments

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within 24 hours. At this a visibly annoyed Schimmelpfennig said it would be impossible for the donors to comply, and he demanded more time. Smiling benignly, Davlatov offered to give the donors two more days: Saturday and Sunday. In the end, the government agreed to give donors a week for substantive comments. The World Bank's Konishi solemnly beseeched participants to keep the government's plan in strict confidence -- not even sharing it with their capitals -- for fear that its details might leak. "The government has gone to a lot of hard work. If the cotton investors get word of the details of this plan, I promise you that it is all over; the plan is dead."

Irreverence at Lunch

111. (C) At a VIP lunch hosted by Davlatov and Bobozoda, the mood was more buoyant. Davlatov raised a "symbolic" glass of vodka to toast the completion of a successful conference, which he, and several guests, knocked back in one shot. Several subsequent "symbolic" toasts were polished off in short order. Toward the end of the lunch, Davlatov began teasing Bobozoda: "You can always tell when he's drinking because his cheeks get

red. Well, I have red cheeks too, but that's just because I got a tan in Bali." (Davlatov was in Bali recently to attend World Bank meetings.) The World Bank's Konishi appeared to happily take his cue from Davlatov, at one point gently chiding Asian Development Bank Country Representative Makoto Ojiro for not drinking. "It's just symbolic, Makoto, you need to drink!"

¶12. (C) Not everyone was comfortable with Davlatov's irreverence. At one point during the lunch, he mentioned that a senior Tajik government official would be in China in the next few days. Noting that Kazakhstan had recently secured a \$10 billion loan from the Chinese, he suggested that Tajikistan may also get "a few billion dollars" out of a trip to Beijing. "Why do I mention this? Because I don't want Axel and the IMF to say we didn't disclose it ahead of time!" At this comment, Schimmelpfennig appeared to turn green and said through tight lips: "Mr. Davlatov, this is what I hope: I hope that when the IMF team comes back in September, we will find that the Tajik government has fulfilled all of its obligations, and we will be able to recommend continued assistance." (Comment: Davlatov and other government officials routinely mention China during meetings with donors. The message is pretty clear: we do not necessarily need you; if you make your rules too stringent, we can always go to China, which is happy to give us money without your strings. End comment.)

¶13. (SBU) Bobozoda noted that the government had recently been criticized in the opposition press. Apparently, the IMF had approved an assistance package for Armenia worth several hundred million dollars more than the \$116 million PRGF for Tajikistan. Bobozoda and his colleagues apparently were not working hard enough, the opposition said, so Tajik voters should consider replacing them with their Armenian counterparts.

¶14. (C) Comment: In the wake of the IMF scandal, the government has been eager to show that it is cooperating with donors, rolling out action plans for every issue the international community can throw at it. Few donors asked hard questions (although this might have been from despair more than complacency) even when senior officials' off-the-cuff comments suggested they might not have been taking this very seriously. Ambassador and Schimmelpfennig were two exceptions, the former expressing serious doubts about the cotton plan and the latter attempting to express to the government how seriously the IMF takes agreements. Konishi seemed eager to take the government at its word, and his apparently earnest admonition not to share the cotton reform plan "with ANYONE" revealed a profound lack of understanding that the government officials sitting across from him were closely connected to the very same cotton investors he so urgently wanted to keep the plan from. It was hard to tell, but Davlatov's Cheshire-cat smile seemed to grow slightly more amused at that point. End comment.
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